

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

IN THE MATTER OF SOFTRAK TECHNOLOGY EXPORTS LTD.

**In respect of Sunil Gaglani (PAN no. AEBPG9442F) and
Softrak Technology Export Ltd.**

Date of hearing: November 13, 2009

Appearances

For Mr. Sunil Gaglani: Mr. Sunil Gaglani

**For Softrak Technology
Export Ltd:** None Appeared

For SEBI: Mr. Biswajit Choudhury, Deputy General Manager
Mr. Siddharth Dachalwal, Manager
Mr. Jai Parkash, Legal Officer
Ms. Vasudha Goenka, Legal Officer

ORDER

Under Section 11 and 11B of the Securities and Exchange Board of India Act, 1992.

1. Securities and Exchange Board of India (hereinafter referred as 'SEBI') had conducted investigation into the buying, selling and dealing in the shares of Softrak Technology Exports Ltd. (hereinafter referred as 'STEL') for the period January 1, 2002 to July 31, 2002, *inter alia*, to ascertain whether there was any violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. During the period of investigations the scrip of STEL was listed on Bombay Stock Exchange (hereinafter referred to as 'BSE') and on Ahmedabad Stock Exchange (hereinafter referred to as 'ASE').

2. Investigations, *inter alia*, revealed that STEL, which had a paid up capital of Rs.3,60,00,000 comprising 36 lakh shares, issued 3 crore additional shares to certain entities, allegedly including several fictitious entities for non-cash considerations. These shares were swapped for the shares of two companies, namely M/s. Cybersoft Infocomm Ltd. (hereinafter referred to as 'Cybersoft') and M/s. Pushpam Infotech Ltd (hereinafter referred to as 'Pushpam'). Further, it was alleged that several fictitious demat accounts were opened using forged and fabricated documents. The shares of STEL so allotted were fraudulently dematerialized using an in-principle listing approval from ASE. The Managing Director of STEL, Shri Sunil Gaglani had represented the company before the exchanges for this purpose. Following this, the said shares were routed through various entities and finally offloaded using the BSE platform, even though BSE had refused listing permission for these additional shares.
3. Accordingly, a notice dated January 1, 2009 (hereinafter referred to as 'SCN') was issued to STEL and Sunil Gaglani (hereinafter referred to as 'Noticees') alleging that the acts of the noticees were in violation of Section 12A of SEBI Act, 1992 and Regulation 3 and 6(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') read with Regulation 3(a) to (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating To Securities Market) Regulations, 2003 (hereinafter referred to as 'FUTP Regulations'). The SCN called upon the noticees to show cause as to why suitable directions under Sections 11 read with 11B of SEBI Act, 1992 including restraining them from accessing the capital market and prohibiting from buying, selling or dealing in securities in any manner should not be issued against them. Moreover, Sunil Gaglani was asked to show cause as to why further directions to buy back the unlisted shares of the company should not be passed against him.
4. The ASE was requested to deliver the SCN. The SCN was delivered to Sunil Gaglani, but was not delivered to Softrak Technology Export Ltd. A reminder vide letter dated April 21, 2009 was sent to the entities through the SEBI regional office at

Ahmedabad, to reply to the said Show Cause Notice. The team from the regional office went to serve the reminder and visited Sunil Gaglani's address. The team met with an individual who identified himself as Sunil Gaglani's father. The said individual refused to accept the reminder and objected to the SEBI team affixing the reminder on the premises. The reminder was also not delivered to STEL. Following this a notice was published in the Gujarat Samachar and Hindustan Times for Undelivered Show Cause Notice, *inter alia*, for STEL on August 9, 2009 and August 13, 2009 respectively. The noticee was informed that they should reply within fifteen days, failing which the matter would be decided ex-parte.

5. An opportunity of personal hearing was granted to Sunil Gaglani before me on November 13, 2009, for which he appeared and made oral submissions. The said noticee was, on request, granted 15 days to file written submissions. However, no written submissions have been filed till date. During the hearing Sunil Gaglani, *inter alia*, submitted that he had resigned from the company before these events had occurred, and that he had tried to prevent the sale of unlisted shares.
6. In the absence of any submission/reply to the newspaper notice from STEL matter we may proceed against it with the matter, ex-parte.
7. I have carefully considered the SCN and other material available on record. I note that the paid up capital of the company as on January 1, 2002 was Rs.33,60,00,000/- (3,36,00,000 shares of Rs.10/-). The above capital of the company consisted of 3,00,00,000 shares allotted on a preferential basis (swap for consideration other than cash) as follows:
 - i. A resolution under Section 81(1A) of the Companies Act, 1956 was passed by the company on November 24, 2001, by which 1,00,00,000 equity shares were allotted to shareholders of M/s. Cybersoft Infocomm Ltd. (hereinafter referred to as 'Cybersoft') on December 11, 2001, and

- ii. A resolution under Section 81(1A) of the Companies Act, 1956 was passed by the company on January 31, 2002, by which 2,00,00,000 shares were allotted to shareholders of M/s. Pushpam Infotech Ltd (hereinafter referred to as 'Pushpam') on February 14, 2002.

These shares were not listed on BSE. Thus, the listed capital of the company during the investigation period was just 36,00,000 shares.

8. The first preferential (swap) allotment of 1,00,00,000 equity shares was made by STEL to the following entities. The company claimed that these entities were the shareholders of Cybersoft.

1	Rajesh M Jain	8	Varsha K Vakharia	15	Param S Shah
2	Dashrat K Kharti	9	Nitin Shah	16	Mahesh C Shah
3	Ganpat P Kharti	10	Naisharg K Vakharia	17	Himanshu S Pandya
4	Bharat M Jain	11	Manjulaben R Shah	18	Rajendra U Patel
5	Kiran K Karti	12	Dilip Gajjar	19	Sunil P Shah
6	Rajiv Acharya	13	Bharat Desai	20	Annu S Shah.
7	Kirit Vaghela	14	Dhirajlal P Mehta		

Each of the aforementioned entities was issued 5 lakh shares.

9. STEL filed an application with the BSE on December 22, 2001 for listing of one crore equity shares of Rs.10/- each at par issued to the shareholders of Cybersoft on swap basis. The valuer of the company M/s. Apaji Amin & Co, Chartered Accountants, gave the share valuation report in which the exchange ratio of STEL to Cybersoft shares was calculated to be 10:1. ASE gave in-principle approval on December 20, 2001. BSE as part of listing formalities sought information from the company pertaining to the process by which it identified Cybersoft with whom the company signed MOU under swap scheme. Since the company did not reply to the letter of BSE, it appointed independent Chartered Accountant firm M/s Vasant Agre & Associates to evaluate the fairness of the valuation and resultant swap ratio. The

firm filed its report on January 9, 2003 stating that in their opinion the valuation of the shares would be Rs.11/- and Rs.31/- respectively and they arrived at a fair swap ratio of 3:1 as against 10:1 as given by the company.

10. In the meantime, NSDL informed BSE that the company has dematerialized unlisted shares without obtaining in-principle approval from the Exchange. BSE advised the company to furnish the details of the dematerialized shares. Since the company did not furnish this information, the Exchange vide its letter dated December 28, 2002 issued a show cause notice to the company as to why the action of withdrawing permission to dealings in the company's securities on the exchange be not taken. The company did not reply to the said show cause notice till January 27, 2003. Thereafter the Exchange suspended trading in the securities of the company with effect from January 29, 2003. The listing of the preferential issue of the company of 1,00,00,000 equity shares of the company was rejected by the Listing Committee of BSE on the above grounds.

11. STEL made a second preferential issue of 2,00,00,000 equity shares of Rs.10/- each to the shareholders of Pushpam on February 14, 2002, for consideration other than cash on swap basis. The allottees in the second preferential (swap) allotment were as follows.

1	Pankaj Jain	8	Rajesh Mehta	15	Pradip Jain
2	Dinesh Shah	9	Ronak Mehta	16	Sandeep Shah
3	Hitesh Shah	10	Naresh Mehta	17	Pagnesh Tiwari
4	Purushotham Khatri	11	Rakesh Shah	18	Amul Patel
5	Sanjay Khatri	12	Vinod Jain	19	Rajendra Dhariwal
6	Ashok Jain	13	Kiran Mehta	20	Mahavir Shah
7	Nayan Jain	14	Deepak Shah		

Each allottee received 10 lakh shares in the second preferential issue.

12. The company filed a listing application with BSE on January 8, 2003. The BSE vide its letter dated February 4, 2003 informed the company about the listing formalities to be complied with for the second issue. STEL did not reply to the same. Hence, the said shares were also not listed as the company failed to complete the listing formalities. The two issues were made in a gap of just two months. Several inter-linkages were observed among the preferential allottees, like similarities in the addresses of the preferential allottees, same person with different addresses and payment of account charges by common cheque.

13. On further examination of the demat accounts of the preferential allottees in the scrip, it was observed-

- i. Demat accounts were opened in the name of the preferential allottees with the Depository Participant (hereinafter referred to as 'DP'), Stock Holding Corporation of India Ltd. The accounts were opened in close proximity to each other and were opened just about the time of the allotment. All the demat accounts were opened using the employee ID cards of the Cybersoft and a certain Ranka Finance, which had the same address as that of Rajesh Ranka, one of the preferential allottees.
- ii. The demat accounts in the name of the entities that got allotment in the second allotment were opened with the common address of Ranka Finance using the employee ID card of Ranka Finance. Investigation revealed that this address belonged to Rajesh Ranka who also got allotment in the first preferential allotment in the name Rajesh M Jain. The summons/ letters sent to these entities at the address mentioned in the Demat accounts were returned by Rajesh Ranka claiming that he had nothing to do with these accounts. The summons were also sent to these entities at the addresses, as filed by the company with the exchange for getting listing permission, which came back undelivered. ASE also reported

- that none of these addresses are correct and some other persons are residing at those addresses for quite some time.
- iii. The bank account numbers obtained from the KYC filed for opening the Demat accounts of these allottees were also found to be non-existent. Some of the banks submitted that they don't even have the serial numbers of the bank accounts as mentioned in the demat account opening forms.
 - iv. In one case demat accounts were opened for the same person (same photo) in different names, both using the employee ID card of the same company i.e. Cybersoft. The addresses obtained from the documents filed by the company for listing application are found to be fictitious. Similarly the DP opened two accounts for Rajesh Ranka in the names Rajesh M Jain and Rajesh M Shah both using copies of driving license. As per the details submitted by the company to the exchanges, both these names appear in the top 50 share holder list.
 - v. It is seen that 16 of these Demat accounts were opened during December 15 to December 18, 2001. All these entities had used the employee IDs of Cybersoft. Nine of these accounts openings were witnessed by one person. As stated by Stock Holding Corporation of India Ltd., the transaction charges for the 16 Demat accounts were paid by one cheque (No.045477 for Rs.3990/-) drawn on Standard Chartered Bank. On examining the copy of the account opening form submitted by The Standard Chartered Bank vide its letter dated April 8, 2005 it is observed that the cheque was issued from the account of Bharat Desai and the account was introduced by Rajesh Ranka. In the account opening form, Rajesh Ranka is mentioned to be the uncle of Bharat Desai in the relationship column. In the remaining Demat accounts the transaction costs were paid by cash payment.
14. I observe that during the investigation period the price of the scrip increased from Rs. 1.80, the opening price on January 1, 2002 to a high of Rs. 2.30 on January 7, 2002 and then gradually fell down to Rs. 0.70 on January 23, 2002, which is a fall of 69%

in 13 trading days. The average volumes of shares traded during this period was 77176 shares. The price of the scrip decreased from Rs.0.70/- on April 3, 2002 to Rs.0.40/- on April 11, 2002, which is a 42.85% fall in 7 trading days. The average volumes of shares traded during this period were 241134 shares.

15. The major brokers and the clients who traded during the investigation are as given below:

Member Broker	Sub-Broker	Major Ultimate Client	Gross Purchase		Gross Sales	
			Shares	%	Shares	%
Park light Investments Pvt. Ltd.		Ankit Jhaveri*	285053	0.59	14927712	31.21
		Nrupesh C Shah*			1988023	4.13
		Yogesh Bhavnagari*			3454658	7.18
		Yash Corporation			274313	0.57
	Total trading by broker		296023	0.62%	20691706	43.00%
ASE Capital Markets	Vasudev Gordhandas Dapki	Rajesh N Jhaveri (R006)*			892000	1.85
	Jaswantlal Vadilal Shah	Saumil Bhavnagari (S11)*			2003700	4.16
	Rajesh Jhaveri	Nrupesh C Shah*	31928	0.07	49982	0.10
		Rajesh N Jhaveri (Gautam Jhaveri)	34948		38054	
	Total trading by broker		518930	1.08%	3305629	6.87%
P. Suryakant	Shree Parshwa Finance (Prop: Piyush Jhaveri)	Ashish P Shah	10000	0.02	260500	0.54
		Fenil M Shah	1004011	2.09	1004976	2.09
		Kishore Corporation*		0.00	1050000	2.18
		Trading account	1071504	2.23	1091952	2.27
		Nrupesh C Shah*	146314	0.30	812586	1.69
	Total trading by broker		2529550	5.26%	4452659	9.25%
ICICI Webtrade		Total 273 clients.	10827004	22.50%	6555277	13.62%
Total traded quantity			48116275	100%	48116275	100%

*Shares were delivered by Gautam Jhaveri to the broker/ sub broker on behalf of their clients.

*183957 shares were sold by Parklight Investment Pvt. Ltd. in the client code of Rajesh N Jhaveri but contract notes were issued in the name of Ankit Jhaveri

16. The trading of the members having more than 15 % counter party concentration was analyzed. While the selling was concentrated among a few clients and brokers, buying was scattered. Though the broker ICICI web trade had over 22.5% concentration on the buy side it is seen that the buying clients were scattered among 273 clients.
17. It is also observed from the table above that the major selling clients while having sold shares amounting to many times the total listed capital of the company had not made any major purchases in the scrip. The major sellers like Ankit Jhaveri had sold around 1.47 crore shares of STEL, however had bought just 2.85 lakh shares. Similarly other major clients like Yogesh Bhavnagari, Nrupesh C Shah, Saumil Bhavnagari, Rajesh N Jhaveri, Kishore Corporation etc. also did not buy any major quantity of shares while had sold large number of shares wherein only 36 lakh shares were listed.
18. Since it was observed that a few clients had sold more than the listed capital of the company while purchases were comparatively less as stated above, demat accounts of these clients including Ankit Jhaveri, Nrupesh Shah, Yogesh Bhavnagari, Rajesh N Jhaveri and Saumil Bhavnagari, Kishore Corporation were analyzed to find out the source of their acquisition. Analysis of demat statements revealed the following:
 - i. The preferential allottees had dematerialised the shares they had received in the allotments and had transferred these shares to Rajesh Ranka and Gautam Jhaveri (proprietor of M/s Rajesh N Jhaveri).
 - ii. Rajesh Ranka was holding 5 lakh shares from the preferential allotment and further received 71,81,980 shares from the preferential allottees of Cybersoft and 1,90,00,000 shares (on a single day) from the allottees of Pushpam.

- iii. Gautam Jhaveri received 2,33,72,565 shares from Rajesh Ranka (alias Rajesh Jain) and 11,09,556 shares from some of the other preferential allottees in the scrip during the Investigation period.
 - iv. None of the aforementioned entities (clients) except Gautam Jhaveri had received any shares through off- market transfers, nor had they delivered any shares to the respective brokers. Their delivery obligations were met through third party delivery by Shri Gautam Jhaveri (Rajesh N Jhaveri).
 - v. Shri Sunil Gaglani, the MD of the company STEL had received 10 lakh unlisted shares through off-market transfers from Rajesh Ranka and he sold the shares in the market (as third party delivery through the client Pravin Patel of the broker ARJ Securities Ltd.).
 - vi. Hence, out of the total preferential allotment of 3 crore shares, 2,46,77,349 shares were received by Shri. Gautam Jhaveri. From the Demat account of Shri Gautam Jhaveri it is seen that he had met delivery for the brokers Parklight Investment Pvt. Ltd. (2,05,34,963 shares) and ASE Capital Markets (20,00,000 shares) and sub-broker Shri Parshwa Finance (12,68,286 shares). As stated earlier, the preferential shares issued and allotted were unlisted. Hence, unlisted shares were offloaded in the market.
19. Summons was issued to the company for submitting details/ documents like share holding pattern of the company, details of the promoters of the company, relationship of the promoters of the company with preferential (swap) allottees, reasons for dematerializing the shares without obtaining in principal approval from all exchanges where it is listed, who approved the dematerialization, details of the directors of Cybersoft and Pushpam and also of the preferential allottees, copies of Memorandum and articles of association and registration certificates of Cybersoft and Pushpam and so on. The summons was affixed at the premises of the company through ASE and

alternate delivery was affected by posting in SEBI website. However no reply was received.

20. Sunil Gaglani confirmed vide statement recorded dated October 15, 2004, that he received 10,00,000/- shares in an off-market deal from Rajesh Ranka. He sold these shares (as third party delivery for Pravin Patel) in the BSE through ARJ Securities. Sunil Gaglani stated that he was helping Rajesh Ranka to sell the shares. While executing these trades Shri Gaglani was well aware that the shares were not listed in the market, as he was the person who was coordinating with BSE with regard to listing of these shares which he sold. He stated that on the basis of listing permission obtained by the company from ASE the shares were dematerialised. I note that ASE had given only conditional listing permission, stating that the actual dealing would be permitted only after obtaining listing permission from other exchanges. BSE did not give the listing permission, but by then the shares were dematerialised. It is further seen that among the first preferential allottees (Cybersoft shareholders) there were two entities whose addresses were same as that of Sunil Gaglani. The letters/ summons could not be delivered at the address and ASE reported that no such person is residing there. DP accounts of these entities were opened using an employee ID card of Cybersoft Infocomm Ltd. and the shares dematerialised were sent to Rajesh Ranka in off market trades and the shares ultimately went to the market.

21. I further note that during the hearing Shri Sunil Gaglani had claimed that he had resigned from the office of the company and was just acting as a consultant to the company. However, he did not give the date of resignation. Upon verifying the records it is seen that on June 1, 2002 Sunil Gaglani (PAN: AEBPG9442F) had sent a letter to BSE giving the details of the directors wherein he is a director in Softrak Technology Exports Ltd. Also as per the details reported to the exchange on July 31, 2002 it is seen that Sunil Gaglani appears as the promoter/ persons having control in the company. Since the company did not have any Registrar & Share Transfer Agents, the company and its managing director are responsible for the unauthorized dematerialization of shares. The addresses of the entities in the Pushpam Allotment as

disclosed by the company to the exchanges were found to be fictitious addresses. Since further details/clarifications were required summons were issued to Sunil Gaglani to submit the details like reason for preferential allotment made within short period of two months, copy of minutes of the EGM that approved the swap issue, reasons for selling the unlisted shares in the market, his relationship with various entities involved, details of financial arrangement with Rajesh Jain (Ranka), documentary evidences on his claim that Rajesh Ranka was dealing the scrip on commission basis etc. While the first summon issued on December 19, 2007 was delivered to him by ASE, subsequent summons sent to him through registered post at the same address came back undelivered. When ASE went to deliver the same to him, he refused to accept the same. In view of the above the submission made by Sunil Gaglani that he had tried to prevent the sale of unlisted shares seems unreliable.

22. I find from the above facts that the noticees were involved in the scheme of manipulation in the scrip of Softrak Technology Exports Ltd. which included the share-swap acquisition of two unlisted companies by STEL within a gap of two months, unfair valuation of shares and swap ratio, allotment of shares (preferential-swap) to fictitious entities, opening of the DP accounts by using fictitious names, addresses and bank accounts, dematerializing the shares by obtaining conditional permission from ASE and off-loading these unlisted shares in BSE through web of off-market transfers and third party deliveries to defraud innocent and gullible investors and therefore are in violation of Section-12A of SEBI Act, 1992 and Regulation 3 and 6 (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with Regulation 3 (a) to (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

23. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11(4) and 11B thereof, restrain Softrak Technology Exports Ltd. and Sunil

Gaglani from buying, selling or dealing in securities and from associating in securities market in any manner whatsoever for a period of 2 years.

24. This order shall be served on all recognized stock exchanges and depositories to ensure that the Noticees are not allowed to undertake transactions as prohibited in Para 23 above.

25. This order shall come into force with immediate effect.

DATE : July 28, 2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA